

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
DISTRICT OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS - COMPLIANCE	
FIA-61 Log	2-3
Supporting Documentation for Payments	3
Sign-O-Meter Reconciliation	3
Control of Bus Tickets	4
Monthly Closing of Books	4
Pending File of FIA-138/FIA-2362's	4-5
Security Officers Log	5
IRS Data Control Sheet	5-6
Knowledge of IRS Security Procedures	6
Reconciliation of Monthly Automated Recoupment System Reports	6
Separation of Duties - Accounts Receivable	7
Follow-Up on Potential Accounts Receivable	7
RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS	
Client Processing	8
MA-010 Reconciliation - Supplemental Payments	8

INTRODUCTION

The Office of Internal Audit performed an audit of the Grand River/Warren District, FIA for the period October 1, 1997 through April 7, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Grand River/Warren District had 80 full time equated positions (FTE's) at the time of our review. The Grand River/Warren District provided assistance to an average 9,816 recipients per month during FY 1996, with total assistance payments of \$19,383,726 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Grand River/Warren District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
ENP/SER Program	Medical Transportation
Phone Usage	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Grand River/Warren District internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

DISTRICT OFFICE RESPONSE

The Grand River/Warren District has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated May 11, 1998 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Grand River/Warren District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

FIA-61 Log

1. The Grand River/Warren District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that the Grand River/Warren District perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Supporting Documentation for Payments

2. The Grand River/Warren District did not always attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An invoice or other supporting documentation was not attached for 7 of the 56 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate. Also 6 out of 56 payments had a copy of the bill in the fiscal office instead of the original. The original invoice should be retained in the Accounting Office to help prevent duplicate payments.

WE RECOMMEND that the Grand River/Warren District attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

Sign-O-Meter Reconciliation

3. The Grand River/Warren District did not document the reconciliation of the Sign-O-Meter Record (FIA-4711) with the Check Register, as required by Accounting Manual Item 410.1. Documentation that this reconciliation was performed is necessary to ensure that no checks go through the check signer that are not accounted for in the accounting records.

WE RECOMMEND that the Grand River/Warren District retain the documentation of the reconciliation of the Sign-O-Meter Record with the Check Register.

Control of Bus Tickets

4. The Grand River/Warren District did not properly control the inventory of bus tickets and passes. We noted that the bus tickets were kept in the safe, the Controlled Document Log (FIA-4070) was maintained, but the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) report was not prepared. Preparation of the Monthly Controlled Document Inventory and Reconciliation is necessary for timely detection of any missing bus tickets.

WE RECOMMEND that the Grand River/Warren District prepare the Monthly Controlled Document Inventory and Reconciliation for bus tickets.

Monthly Closing of Books

5. The Grand River/Warren District did not close its books monthly, as required by Accounting Manual Item 402. As of March 27, 1998, the month of February was still open. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that the Grand River/Warren District close its books each month when the monthly reports are prepared.

Pending File of FIA-138/FIA-2362's

6. The Grand River/Warren District bookkeeper did not maintain a pending file of FIA-138's (Action taken on State Treasurer's Warrants by Local Offices) or FIA-2362's (Services Warrants Rewrite/Disposition Request). as required by Accounting Manual Item 462. Maintaining a pending file will provide an audit trail to the FIA-61, Record and Disposition of State Warrants..

WE RECOMMEND that the Grand River/Warren District bookkeeper maintain a pending file of FIA-138/FIA-2362's.

Security Officers Log (PD-180)

7. The Grand River/Warren District Security Officers Log was not being reconciled by the District Secretary as required by L-Letter L-96-176. Reconciling this report will help to ensure that operator enrollment changes are supported by appropriate documentation in the user's file, and that the CIS Coordinator has not assigned herself an additional OID/Operator status that would permit file maintenance capabilities.

WE RECOMMEND that the District Secretary reconcile the PD-180 report to the supporting documentation in the user's file.

Corrective Action: The District Secretary began receiving the PD-180 to reconcile on January 12, 1998. She has now received instructions on the reconciliation process, and is performing this function.

IRS Data Control Sheet

8. The Grand River/Warren District did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the District, as required by PAM Item 800. Completion of the FIA-4488 is necessary to document that the District is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that the Grand River/Warren District record all FIA-4487A's received on the FIA-4488.

Corrective Action: District initiated corrective action while the auditor was on site.

Knowledge of IRS Security Procedures

9. The Grand River/Warren District mailroom staff, FIS and ES staff were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Grand River/Warren District familiarize the mailroom, FIS and ES staff with all aspects of the confidentiality laws for information received from the IRS.

Reconciliation of Monthly Automated Recoupment System Reports

10. The fiscal office at the Grand River/Warren District did not reconcile the Monthly Automated Recoupment System Reports (i.e. GH-280, Recoupment Activity Report) with the payment information input during the month, as required by Accounting Manual Item 481.5. The designated person should reconcile these accounts each month to ensure the accuracy of the receivables.

WE RECOMMEND that the Grand River/Warren District reconcile the Accounts Receivable Accounts monthly.

Separation of Duties - Accounts Receivable

11. The Grand River/Warren District was not properly separating duties in the accounts receivable function. The fiscal supervisor was responsible for the entire accounts

receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that the Grand River/Warren District either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Follow-Up on Potential Accounts Receivable

12. The Grand River/Warren District did not do periodic follow-up with landlords and clients to determine if the client had moved or received an asset, as required by Accounting Manual Item 480. Periodic follow-up helps to identify cases where an amount is due to the State.

WE RECOMMEND that the Grand River/Warren District periodically follow-up on its potential accounts receivable to determine if amounts are owing to the State.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at the Grand River/Warren District FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Client Processing

13. The Grand River/Warren District was having the clerk pull a copy of the Request and Registration control record (FIA-3614) after the case was handled by a specialist. The

clerk should pull the copy of the FIA-3614 before the case is given to a specialist so that the FIA-3614 copy can be used for follow-up to verify that the case was actually passed. This verification process helps to prevent fictitious cases.

WE RECOMMEND that the Grand River/Warren District have the clerk pull the copy of the FIA-3614 before the case is given to a specialist, and use the FIA-3614 for follow-up.

MA-010 Reconciliation - Supplemental Payments

14. The Grand River/Warren District did not reconcile 100% of the Supplemental Payments listed on the Transaction Control Listing (MA-010) to the Supplemental Payment Authorization (FIA-13) and other supporting documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. We found only the ampersand transactions were being reconciled by the Analyst. Reconciling 100% of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that the Grand River/Warren District reconcile 100% of the Supplemental Payments on the MA-010 or SP-270 report to the FIA-13's and other supporting documentation.

MA-010 Reconciliation - Openings and Reopenings

15. The Grand River/Warren District did not reconcile all new case openings and reopenings listed on the MA-010 Report to the Request and Registration Control Record (FIA-3614), as recommended by the Primary Internal Control Criteria for FIA Local/District

Office Operations. A 100% reconciliation of openings and reopenings provides assurance that cases were opened only by their assigned workers.

WE RECOMMEND that the Grand River/Warren District reconcile all case openings and reopenings on the MA-010 Report to the FIA-3614's.